

Top Secret



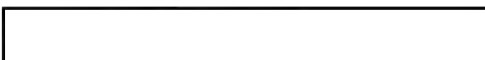
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Central Intelligence Bulletin

Top Secret

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March 26, 1974



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Approved For Release 2004/04/12 : CIA-RDP79T00975A026300040001-5

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25X1

March 26, 1974

Central Intelligence Bulletin

CONTENTS

YUGOSLAVIA-ITALY: Yugoslavia steps up dispute with Italy over Trieste. (Page 1)

ETHIOPIA: Loyal troops quell mutiny at air base south of capital. (Page 2)

FRANCE: Pompidou's cancellation of several official engagements has reinforced rumors he will soon resign. (Page 4)

EUROPEAN COMMUNITIES: Community resolves annual battle over farm prices. (Page 5)

INTERNATIONAL MONETARY DEVELOPMENTS: Dollar continued to weaken on major European markets yesterday. (Page 6)

LAOS: Pathet Lao Chairman sends special representative to resume talks with Souvanna. (Page 7)

KOREA: Pyongyang attempts to gain diplomatic initiative by proposing direct talks with US on a peace treaty. (Page 8)

CAMBODIA - NORTH VIETNAM: Khmer Communist delegation to make official visit to Hanoi. (Page 9)

25X1

WESTERN EUROPE: European Trade Union Confederation set to accept its first Communist-dominated member. (Page 13)



*YUGOSLAVIA-ITALY: Yugoslavia has stepped up its dispute with Italy over Trieste.

A high-level Yugoslav Foreign Ministry official said yesterday that Belgrade "would now be forced" to reopen its claim to Zone A, an area the Italians have held without challenge since 1954. The official also threatened that Yugoslavia might reveal the contents of secret talks with Italy, a move that could prove embarrassing to the Italian Government.

Yugoslavia is also making a show of military preparedness against the alleged threat of an Italian invasion of Zone B. Over the weekend, Yugoslav Air Force and Navy commanders inspected the area, and national television covered the arrival in Zone B of fresh border troops and some tanks.

Belgrade's actions are a flat rejection of Rome's efforts last week to back away from the fuss created when it renewed its claim to Zone B, which the Yugoslavs have administered since 1954.

Tito probably intends no more than a demonstration of determination, but he may keep the heat on for some time. It gives him a chance to generate patriotism that could help obscure domestic problems during the national election in April and the party congress in May. Tito would not hesitate to use a NATO exercise scheduled for the northern Adriatic this week to inflame matters further.

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*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

Mar 26, 1974

Central Intelligence Bulletin

1

25X1

*ETHIOPIA: Loyal troops yesterday put down a mutiny by radical air force personnel at the air base at Debre Zeit south of Addis Ababa.

The airborne battalion stationed at the base, supported by infantry and armored units, took back control of the base from rebellious air force enlisted men and non-commissioned and junior officers, several of whom were placed under arrest. The air force rebels apparently hoped that their mutiny would spark similar action throughout the military. Addis Ababa, however, is reported calm; troops are guarding radio stations and the capital's ordnance depot. The radicals also failed in their attempt to encourage a mass demonstration by students and labor leaders.

The air force rebels form the core of dissatisfied radicals within the ranks of the military dissidents who forced the ouster of the previous government and wrested major concessions from the Emperor. The radicals have split with their moderate colleagues over the issue of support for Prime Minister Endalkatchew's new government.

The radicals, composed primarily of junior and non-commissioned officers, are impatient with the new cabinet's progress in implementing promised economic and political changes. They feel that continued agitation is the only way of maintaining the momentum set in motion by last month's rebellion.

The radicals are particularly angry over the government's failure to arrest and initiate judicial proceedings against members of the former cabinet for alleged corruption. The Emperor announced in a radio speech yesterday that a commission to determine which former or present government officials are guilty of misconduct will be named by March 28. This may not satisfy the radicals' desire for immediate action, however. The moderates also want the former ministers brought to trial, although they do not support the radicals' call for a military court martial.

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Mar 26, 1974

Central Intelligence Bulletin

2

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25X1

Endalkatchew will not be able to put off legal action much longer.

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The radicals are also dissatisfied because they have not received promised pay raises, and they feel the recently appointed constitutional reform committee is composed of too many conservatives.

Tension between the radicals and moderates is likely to persist for some time. The moderates still have the upper hand, as demonstrated by their ability to suppress quickly the Debre Zeit mutiny. Troops throughout Ethiopia, however, are sympathetic to many of the radicals' specific demands, although they may not support the radicals' call for a change in government. There is also some evidence that the radicals have support at the top levels of the military in Addis Ababa.

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Mar 26, 1974

Central Intelligence Bulletin

3

25X1

25X1

Approved For Release 2004/04/12 : CIA-RDP79T00975A026300040001-5

FRANCE: President Pompidou's cancellation of several official engagements has reinforced rumors that he will soon resign.

Since his return from the Soviet Union in mid-March, Pompidou has been absent from a number of important public functions and failed to resume his normal duties yesterday as predicted. The French leader has canceled his visit to Japan, which was scheduled for late April, and may not go to Bonn as planned early next month.

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Press reports suggested yesterday that Pompidou may be planning a referendum in May to create a vice-presidential post and to reduce the presidential term from seven to five years. Last year Pompidou tried but failed to win parliamentary approval of the latter proposal. He will have served five years in June.

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Pompidou is known to be unhappy with the present constitutional provisions that allow the president of the senate, Alain Poher, to succeed to the presidency during the election period. When President de Gaulle resigned, Poher became a candidate and won enough votes to deny Pompidou a first-round victory. Although Poher is unlikely to be a serious contender again, Pompidou would prefer a system that provides him more control over the succession.

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25X1

Mar 26, 1974 Central Intelligence Bulletin

4

Approved For Release 2004/04/12 : CIA-RDP79T00975A026300040001-5

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EUROPEAN COMMUNITIES: Despite earlier fears that Britain's new Labor government would challenge the basic principles of the community's agricultural policy, the EC resolved its annual battle over farm prices relatively amicably last week.

The council of agricultural ministers reached a compromise agreement on March 23 that provided for substantial increases in support prices and a variety of subsidies to keep retail food prices down. The compromise was facilitated by concern that present difficulties might threaten the existence of the EC and by fear of violent reactions from farm organizations if agreement was not achieved.

Another factor facilitating agreement was the level of market prices in the EC, which are in many cases far above EC support prices. Consequently, the increase in support prices may have no immediate effect on prices paid for farm products. Where this is not the case, however, as in the livestock sector, far-reaching deviations from common EC prices had to be conceded particularly to the UK but also to other member-states. These concessions represent fundamental departures from the already badly compromised common agricultural policy.

In addition, the council adopted a policy to encourage EC production of soybeans--a move that will have little immediate impact, but one that Washington has feared might eventually interfere with US exports. London had earlier warned that it would be unable to oppose a common policy for soybeans, which Paris had advocated, because French support was required for EC concessions of greater domestic importance to the UK.

EC capitals have greeted the outcome of the annual debate over prices with relief and satisfaction. The government-sponsored French radio commented that London's conciliatory attitude has restored optimism regarding the EC's future prospects. A government spokesman in Bonn claimed the decision represented a personal success for federal minister Ertl, who had prepared the ground for this solution.

25X1

Mar 26, 1974

Central Intelligence Bulletin

5

INTERNATIONAL MONETARY DEVELOPMENTS: The dollar continued to weaken in major European markets yesterday. Speculation of a mark revaluation--furthered by rumors that the West German trade surplus had set a new record last month--and internal pressures among those currencies remaining in the European joint float forced the dollar to its lowest level since early November.

The dollar suffered its greatest losses against sterling and the Swiss franc--down more than 1 percent against each. The strengthening of the pound was aided by British Trade Secretary Peter Shore's comment that London may announce import controls on Thursday to reduce the UK's expected record trade deficit this year.

Expectations of a new record West German trade surplus of \$1.56 billion in February helped rekindle speculation that the mark may be revalued. The actual surplus this year is likely to exceed substantially that currently rumored. Internal pressures on the remaining joint float currencies further fueled rumors of a mark revaluation. Substantial Belgian and German intervention was required yesterday to maintain the narrow limits of the currency band.

Despite renewed currency uncertainty, the price of gold remained relatively stable at \$176.75 per ounce. Recent speculative interest, which had been sparked by rumors among bullion dealers of a proposed increase in the value of gold held by central banks, abated after the US and the International Monetary Fund issued statements opposing any rise in the official price of gold.

25X1

Mar 26, 1974

Central Intelligence Bulletin

6

25X1

25X1

LAOS: Pathet Lao Chairman Prince Souphanouvong is sending his plenipotentiary representative, Phoumi Vongvichit, to Vientiane to resume private discussions with Prime Minister Souvanna on the formation of a new coalition government.

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Both Souvanna and chief Pathet Lao political negotiator Phoun Sipraseuth indicated in press statements over the weekend that Phoumi was returning to complete arrangements on the membership of the coalition cabinet and its advisory political council. Phoumi will probably also attempt to resolve with Souvanna the few procedural difficulties still impeding effective neutralization of the twin capitals of Vientiane and Luang Prabang.

Souvanna believes that Phoumi's visit will facilitate a meeting between himself, Souphanouvong, and the King in Luang Prabang to "consecrate" the new coalition sometime before the Lao New Year in mid-April.

The recent decision by the King supporting Souvanna's opposition to a special session of the National Assembly--publicly announced by the government on March 21--appears to clear the way for the Prime Minister to form the coalition by direct royal investiture without prior legislative ratification. The Pathet Lao also are in favor of such a coalition scenario.

25X1

Mar 26, 1974

Central Intelligence Bulletin

7

25X1

KOREA: Pyongyang is attempting to put Washington and Seoul on the diplomatic defensive by proposing direct negotiations with the US for a peace treaty to replace the 1953 armistice. The proposal, made by Foreign Minister Ho Tam on March 24, may be Pyongyang's response to Seoul's offer of a nonaggression pact in January. Like the South Korean proposal, it will serve as a base-line bargaining position in the North-South talks, which resume at the vice co-chairmen level on March 27. Pyongyang's emphasis on talks with the US points up the low esteem in which the North currently holds its dialogue with Seoul.

The North Korean offer appears chiefly designed to pre-empt any US and South Korean proposal for reshaping the Military Armistice Commission if the UN Command is dissolved in the near future. In effect, Pyongyang is asserting its unwillingness to accept any arrangement for continuing the MAC in the absence of a peace treaty. While this is clearly an opening position for what are certain to be long and complex negotiations, the emphasis on bilateral talks with the US suggests that Pyongyang is strongly opposed to any formula that would lead to an all-Korean armistice commission, particularly as long as US troops remain on the peninsula.

In conjunction with this objective, Pyongyang is again attempting to focus international attention on the continued US military role in South Korea. Part of its proposal calls for the US to cease arms reinforcement to the South, to remove its troops and equipment "at the earliest possible date," and to cease maintaining any bases in the South once the troops have left.

The North Koreans probably anticipate that their proposal will not draw a positive response in Washington or Seoul, if only because of its implication that the Seoul government is a US puppet and can be made to respond to American dictates. Nonetheless, the proposal is cast in reasonably flexible language, and

Mar 26, 1974

Central Intelligence Bulletin

8

Pyongyang may calculate that it will aggravate any existing US - South Korean differences on diplomatic strategy vis-a-vis the North. The North Korean proposal is also somewhat more forthcoming than some Pyongyang has offered in the recent past, particularly in that it does not specifically demand US troop withdrawal prior to completion of a peace agreement.

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CAMBODIA - NORTH VIETNAM: A Khmer Communist delegation headed by "deputy premier" and "defense minister" Khieu Samphan will make an official visit to North Vietnam in the near future, according to Radio Hanoi. This will be Samphan's first known trip outside Cambodia since the war began. The 42-year-old Samphan has gradually emerged as one of the top leaders of the Khmer Communist movement.

The announcement of the visit comes at a time when the insurgents' dry season offensive--particularly in the immediate Phnom Penh area--is falling well short of the Khmer Communists' expectations. Consequently, future insurgent strategy and tactics seem certain to be discussed in Hanoi, as well as the Khmer Communists' tough attitude toward negotiations. In addition, Samphan may use the occasion to request additional military aid from the North Vietnamese.

There has been no indication that Sihanouk will participate in Samphan's talks with North Vietnamese leaders. Even though Sihanouk has been to Hanoi twice this year, he probably would like to take advantage of a chance to confer with Samphan. The two last met a year ago during Sihanouk's visit to Khmer Communist - controlled areas of Cambodia.

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Approved For Release 2004/04/12 : CIA-RDP79T00975A026300040001-5

WESTERN EUROPE: The European Trade Union Confederation may accept its first Communist-dominated member, the Italian General Confederation of Labor, at its congress in Copenhagen from May 23 to 25.

The move would end more than 25 years of Communist exclusion from regional labor activity in Western Europe. The admission would also bring a well-organized and well-disciplined Communist labor organization into a young, loosely organized confederation that has not yet developed its program and procedures. This would occur at a time when the Confederation is integrating eight formerly Christian Labor federations and is trying to resolve leadership problems.

In recent years, the Italian confederation has made itself more acceptable by taking positions of apparent independence from Soviet direction, including somewhat autonomous views on West European matters. In any case, the action of the Italian Communist-dominated union in pushing for membership suggests that it has significant policy and tactical differences with the big French Communist union and possibly with the Soviets as well. The admission of the Italians may contribute to the isolation of France's Communist-dominated General Confederation of Labor, both in France itself and in Western Europe. The leaders of the Italian confederation appear to have satisfied a growing number within the European Confederation that they will loosen their ties with the Communist World Federation of Trade Unions.

Membership for the Italian Communist confederation would have a major impact in Italy, where it may increase momentum toward Communist and non-Communist labor unity and make the Communist union the principal spokesman for labor. In addition, it might indirectly assist the Italian Communist Party in its efforts to gain support for a wider role in Italian affairs.

Mar 26, 1974

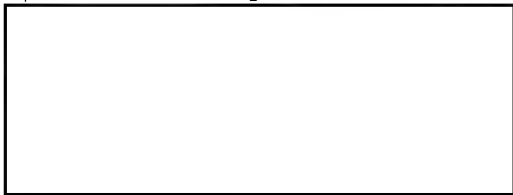
Central Intelligence Bulletin

13

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Top Secret

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